

HOUSING BUBBLE PHENOMENA AND THEIR DETERMINANTS IN KUALA LUMPUR

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ABSTRACT

Housing could be perceived as both a principal of residence and an investment asset. In the past 15 years, this asset class witnessed a dramatic increase in prices, especially in the Kuala Lumpur. The rampant increase in house prices has widening the gap between a house's expected value and its fundamental price. A wide deviation of house price from its fundamental price could cause a housing bubble, which would have a negative impact on the financial market. This paper examines the potential emergence of a housing bubble by using rent to price ratio and employing economic fundamental factors to estimate housing fundamental value, and take difference between actual house price and fundamental value as bubble. Based on the time series regression of the economic fundamental factors, shows that properties in Kuala Lumpur were priced at 4.2% and 11.3% above their fundamental value in years 2012 and 2013 respectively. This finding also were supported by the simple test indicator of rent to price ratio where the ratio were declining drastically after 2011. With the divergence of market price and fundamental price shows an increasing gap each year proved that housing bubble are likely to appear.

Keywords: Housing, Bubble, Assets Price Bubbles, Kuala Lumpur, Time Series, Rent to Price Ratio

ABSTRAK

Rumah boleh dilihat dari segi dua aspek yakni sebagai kediaman dan juga sebagai aset pelaburan. Dalam tempoh 15 tahun kebelakangan ini, kelas aset ini menyaksikan peningkatan harga yang dramatik terutamanya di Kuala Lumpur. Peningkatan harga yang mendadak ini telah meluaskan di antara harga rumah asas dengan harga rumah pasaran. Perbezaan jurang yang besar di antara harga rumah pasaran dengan harga rumah sebenar boleh membawa kepada gelembung rumah, yang akan memberi kesan negatif kepada pasaran kewangan. Kajian ini mengkaji kemungkinan akan kemunculan gelembung perumahan dengan menggunakan dua jenis kaedah iaitu nisbah di antara indeks sewa rumah dengan harga indeks rumah dan kaedah keduanya adalah dengan menggunakan kaedah regresi dengan mengambilkira faktor asas ekonomi untuk menganggarkan indeks nilai sebenar rumah. Perbezaan yang terbentuk di antara dua jenis indeks harga rumah ini akan memberikan gambaran akan kemungkinan gelombang perumahan. Berdasarkan regresi ini, satu faktor asas ekonomi, menunjukkan bahawa hartanah di Kuala Lumpur berharga 4.2% dan 11.3% lebih tinggi dari nilai asas mereka pada tahun-tahun 2012 dan masing-masing 2013. Penemuan ini juga telah disokong oleh ujian nisbah indeks sewa rumah dengan indeks rumah di mana nisbah yang telah menurun secara drastik selepas 2011. Dengan perbezaan harga pasaran dan harga asas harga menunjukkan jurang yang semakin meningkat saban tahun membuktikan bahawa terdapat kemungkinan untuk berlakunya gelombang perumahan di Kuala Lumpur.

Kata Kunci: Perumahan, Gelembung Pelaburan, Aset, Kuala Lumpur, Kajian Masa, Krisis Subprima, Kediaman

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CHAPTER 1

INTRODUCTION

1.1 Background

Financial crisis over the years have been a feature of the economic cycle in both the advanced and developing countries. It is a well-known fact that the 1997 financial crisis and the global financial crisis in 2008 happened primarily due to the burst of housing bubble. Housing bubbles are carefully monitored by the regulators for it often leads to a surge housing loans default and corporate bankruptcy which eventually pull a country economy into recession. For this reason, regulators worldwide strive to contain the rapid growth in house prices before it developed into a bubble. In Malaysia for instance, house prices have escalated during the past four years by nearly 47% for the national average and 58% for Kuala Lumpur (NAPIC, 2013). In response to these predicaments, Malaysian government has resorted to a two pronged approach to contain the price hike in the housing sector. On the demand side, property-cooling measures are initiated effective January 2014 to curb speculative activities in the property market. The cooling measure includes the removal of Developer Interest Bearing Scheme (DIBS)¹, the hike in the real property gain tax (RPGT) from 15% to 30%, the decrease in margin of financing to 70% for the purchase of third property and a more stringent housing loan approval criteria. On the supply side, serious efforts are made to increase the supply of affordable houses in prime areas in Malaysia through the Perbadanan PR1MA Malaysia² National Housing Department and Syarikat Perumahan Negara Berhad

¹ DIBS is a scheme where the developer will bear the interest payment of the buyer's mortgage loan during the construction period. Buyer will only pay the deposit and will serve the loan once the house is completed. For speculator, they will take this opportunity to 'flip' the property due to its low deposit. On the other hand, if the project is abandoned, the buyer still needs to bear the cost of whatever amount has been disbursed to the developer.

² PR1MA is a government owned company under the Prime Minister Department which has the role to plan, develop affordable housing between the price of RM100,000 to RM400,000 for the middle income group in Malaysia. It is governed under PR1MA Act 2012

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